TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013

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TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013

BOARD OF DIRECTORS:

Director	Director Position	DRA Officer Position
Charles McDonald	Bedford County Citizen	
Bill Brown	Coffee County Citizen	
Hershel Mayberry	Hickman County Citizen	
Tony White	Marshall County Citizen	
Joanne Pogue	Maury County Citizen	Secretary/Treasurer
Tommy Peebles	Member-At-Large	Chairman
Eslick Daniel	Member-At-Large	Vice-Chairman
Carl Cooper	City Mayor-At-Large, Chapel Hill	
Lonnie Norman	City Mayor-At-Large, Manchester	
Eugene Ray	County Mayor-At-Large, Bedford County	
James Bailey	County Mayor-At-Large, Maury County	
Brock Hill	Governor's Representative	

MANAGEMENT:

Executive Director:	Doug Murphy
Director of Finance and Administration:	Linda Carr

KraftCPAs PLLC

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

KraftCPAs PLLC - Certified Public Accountants and Consultants
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Also in Nashville and Lebanon, Tennessee

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Tennessee Duck River Development Agency, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 - 8 and the Schedule of Funding progress on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The General Fund Schedule of Expenditures and Net Changes in Fund Balance, Budget to Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The General Fund Schedule of Expenditures and Net Changes in Fund Balance, Budget to Actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund Schedule of Expenditures and Net Changes in Fund Balance, Budget to Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Kraft CPAs PLLC

Columbia, Tennessee
January 15, 2014

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
Management's Discussion and Analysis

As management of the Tennessee Duck River Development Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by $92,710 (*net position*). Except for investments in capital assets, all of this amount may be used to meet the Agency's ongoing obligations to projects and vendors.
- The Agency's total net position increased by $7,184. The Agency's budget included a minimal increase in net position and the Agency withdrew only necessary amounts from Trust B and the Water Supply escrow.
- As of the close of the current fiscal year, the Agency's General Fund reported ending fund balance of $57,764, an increase of $13,215 in comparison with the prior year. This represents 3.4% of total general fund expenditures. With the exception of amounts spent on prepaid expenses and deposits, the entire amount is *available for spending* at the Agency's discretion (*unrestricted net position*).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activities of the Agency include the operating and administrative fund.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund, the only fund of the Agency, is a governmental fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains one governmental fund, the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and is considered to be a major fund.

The Agency adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by $92,710 at the close of the most recent fiscal year.

A portion of the Agency's net position is invested in capital assets (e.g., land, buildings, and building improvements). There is no outstanding debt related to the Agency's capital assets. The Agency uses these capital assets to provide services to constituents; consequently, these assets are not available for future spending as of and for the year ended:

	2013	2012
Current assets	$ 67,621	$ 69,332
Capital assets	34,946	40,977
Total assets	102,567	110,309
Current liabilities	9,857	24,783
Invested in capital assets	34,946	40,977
Unrestricted net position	57,764	44,549
Total net position	$ 92,710	$ 85,526

The remaining balance of unrestricted net position may be used to meet the Agency's ongoing obligations to constituents and creditors.

At the end of both the current and prior fiscal years, the Agency reported positive balances in both categories of net position. There was an increase of $7,184 in net position reported.

Governmental activities. Governmental activities make up the entire net position balance, thus are responsible for the changes in total net position. Key elements of this change are as follows:

	2013	2012
Revenues:		
Trust Fund B - administrative	$ 200,000	$ 207,465
Trust Fund B - program revenues	37,600	37,600
TVA reimbursements	7,600	30,400
Water Supply Projects	154,134	76,979
Drought management plan	-	30,979
Duck River cleanup	3,000	2,535
Miscellaneous income	140	26
Total revenues	402,474	385,984
Expenses:		
Administration	193,138	194,004
Programs	202,152	178,716
Total expenses	395,290	372,720
Increase (decrease) in net position	7,184	13,264
Net position - beginning of the year	85,526	72,262
Net position - end of the year	$ 92,710	$ 85,526

Financial Analysis of the Government's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the Agency's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Agency. At the end of the current fiscal year, fund balance of the general fund was $57,764.

The fund balance of the Agency's General Fund increased $13,215 during the current fiscal year due to management operating under budget on several administrative items and projects.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- Management added an additional $1,000 to the Professional Services budget to allow for accounting consultation services to be purchased.
- An additional $30,000 was added to the water supply projects budget to account for additional consultation services related to the drought management plan and drought forecasting that had not been planned for at the beginning of the year.
- An additional $45,000 was added to the water supply projects budget to fund a NEPA review process related to the drought management plan. Due to delays in project implementation, this process has not begun and the budget was not utilized.
- An additional $1,500 was added to the water supply projects budget for water use efficiency program educational materials. This budget was not utilized due to delays in implementation of the program.

Significant budget to actual variations are explained below:

- It is management's strategy to limit withdrawals from Trust B to necessary expenses in administrative uses. During 2013, management was able to leave $5,000 of the $205,000 revenue budget in Trust B for future projects by operating under budget on various administrative expenses.
- No individual line of administrative expenses was significantly under the budgeted amount, however, total administrative expenses were $9,338 less than budgeted.
- The agency also expended $130,698 less than expected during 2013 on water supply projects due to delays in engineering analysis for the Normandy Reservoir project and not using a professional engineering firm for program management services. The agency also saved $22,800 by not renewing a USGS gage contract for monitoring Shelbyville and Columbia Duck River gages.

Capital Asset Administration

Capital assets. The Agency's investment in capital assets for its governmental type activities as of June 30, 2013, amounts to $34,946 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and building improvements. The decrease in total capital assets was due to annual depreciation of $6,031.

	2013	2012
Land	$ 6,000	$ 6,000
Buildings and improvements	28,946	34,977
Total capital assets	$ 34,946	$ 40,977

Additional information on the Agency's capital assets can be found in Note 3 of the Financial Section of this report.

Economic Factors and Next Year's Budget

The Agency's revenues for operations are limited to a maximum of sixty percent of the contributions by seven water systems in the Duck River Region in the prior year. Since water system contributions for the fiscal year ended June 30, 2013 totaled $350,811, the Agency's 2014 fiscal year budget for the operating fund is limited to $210,487.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF NET POSITION

JUNE 30, 2013

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents - unrestricted	$ 58,906
Due from Trust B	3,803
Due from Water Supply escrow	1,980
Prepaid expenses	2,632
Deposits	300
Capital assets, net of accumulated depreciation:	
Land	6,000
Buildings and improvements	28,946
Total assets	102,567
LIABILITIES	
Contract payable and accrued expenses	9,857
Total liabilities	9,857
NET POSITION	
Invested in capital assets	34,946
Unrestricted	57,764
Total net position	$ 92,710

See accompanying notes to financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES
Governmental activities:			
Environmental programs	$ 202,152	$ 202,334	$ 182
Administration	193,138	200,000	6,862
Total governmental activities:	$ 395,290	$ 402,334	7,044
General Revenues:			
Interest			140
Total general revenues			140
Change in net assets			7,184
Net Position - beginning of year			85,526
Net Position - ending of year			$ 92,710

See accompanying notes to financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

BALANCE SHEET

GOVERNMENTAL FUND

JUNE 30, 2013

	GENERAL FUND
ASSETS	
Cash and cash equivalents - unrestricted	$ 58,906
Due from Trust B	3,803
Due from Water Trust Escrow	1,980
Prepaid items	2,632
Deposits	300
TOTAL ASSETS	$ 67,621
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Contracts payable and accrued expenses	$ 9,857
FUND BALANCE	
Nonspendable	2,932
Unassigned	54,832
TOTAL FUND BALANCE	57,764
TOTAL LIABILITIES AND FUND BALANCE	$ 67,621
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Fund Balance	$ 57,764
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	34,946
Net Position of Governmental Activities	$ 92,710

See accompanying notes to the financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND NET CHANGE IN FUND BALANCE

GOVERNMENTAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

		GENERAL FUND
REVENUES		
Trust Fund B - administrative	$	200,000
Trust Fund B - program revenues		37,600
TVA reimbursements		7,600
Water supply projects		154,134
Duck River cleanup		3,000
Miscellaneous income		140
TOTAL REVENUES		402,474
EXPENDITURES		
Current:		
Environmental programs		202,152
Administration		187,107
TOTAL EXPENDITURES		389,259
EXCESS OF REVENUES OVER EXPENDITURES		13,215
NET CHANGE IN FUND BALANCE		13,215
FUND BALANCE, beginning of year		44,549
FUND BALANCE, end of year	$	57,764
Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Schedule of Revenues and Expenditures, and Net Change in Fund Balance because:		
Net change in Fund Balance - Governmental Funds	$	13,215
Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their useful lives and reported as depreciation expense for governmental activities.		(6,031)
Change in Net Position of Governmental Activities	$	7,184

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and nature of entity

The Tennessee Duck River Development Agency (the "Agency") was established by a Public Act of the General Assembly of the State of Tennessee (the "State") in 1965 for the purpose of developing the natural and economic resources of the Duck River Basin (TCA 64-1-601 as amended). A Board of Directors ("DRA Board"), whose members are appointed by the Governor of Tennessee, governs the Agency. In 1998, the Agency adopted a new mission - "to develop, protect, and sustain a clean and dependable water resource for all citizens of the Duck River region."

The Agency, in agreement with Tennessee Valley Authority (TVA) and the State of Tennessee, receives funding from two trust funds. The Water Supply Escrow Fund is to be used only for the support of new or improved water supply infrastructure projects in the Duck River Watershed. Trust Fund B receives a nickel for every 1,000 gallons of water sold by seven Water Systems in the Duck River region. It allows the Agency to make annual withdrawals for its administrative budget up to 60% of the prior year's total contributions to the fund, and additional amounts for projects not to exceed $50,000, provided the project is included in the Agency's Annual Work Plan. Other withdrawals may be made only with the written consent of both the Agency and a majority (60%) of the Water Systems.

Financial reporting entity

The financial statements present the accounts and operations of the Agency, which is the reporting entity. Because the Water Supply Escrow Fund and Trust Fund B are separate legal entities from the Agency, and the Agency is not financially accountable for the Water Supply Escrow Fund or Trust Fund B, the Trusts' assets, liabilities, and operations are excluded from the reporting entity.

Government-wide and fund financial statements

The Agency adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, and amendment of GASB Statements No. 14 and 34* during 2013. The objective of this statement was to improve financial reporting for a governmental financial reporting entity, and modifies certain requirement for inclusion of component units in the financial reporting entity. This statement did not have significant effect on the Agency as it has no component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The Agency also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during 2013. The objective of GASB Statement No. 63 was to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement was implemented retroactively and resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the entity-wide and proprietary fund statements. The adoption of GASB Statement No. 65 did not have a significant effect on the Agency as it had no items that were previously reported as assets and liabilities that were reclassified as deferred outflows of resources, deferred inflows of resources and current period outflows and inflows.

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the special purpose government.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues collected by the Agency are susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for prepaid expenses, which are recognized when paid.

The *general fund* is the Agency's primary operating fund. It accounts for all financial resources of the Agency, and is reported as a major governmental fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary data

A schedule of revenues and expenditures for the general fund and net changes in fund balance, budget to actual is included as supplementary information, although the budget is not legally adopted. Formal budgetary accounting is employed as a management control by the Agency.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that have an original maturity date when acquired of three months or less.

Statutes authorize the Agency to invest in: (1) U. S. government securities and obligations guaranteed by the U. S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Financial institutions that participate in the bank collateral pool, as administered by the Treasurer of the State of Tennessee, determine the aggregate balance of their deposits for the System. Securities are pledged to the State Treasurer on behalf of the bank collateral pool as collateral for the participating institution's public deposits. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Receivables

Receivables consist of payments due from other government agencies for contracted services and reimbursements due from Trust B and Water Supply Escrow for environmental program and project expenditures. Based on favorable collection history, no provision for uncollectible accounts receivable has been recorded.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets acquired for general governmental purposes are recorded as expenditures of the governmental fund and accounted for in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are recorded at estimated fair market value at the time received. Depreciation expense is recorded on a straight-line basis, with lives ranging from 5 - 20 years. The Agency applies a capitalization threshold whereby an individual asset with a per unit cost of $5,000 or more qualifies for capitalization. Certain exceptions may apply to this policy depending on the nature and expected life of the asset.

Net position

Government-wide net position is divided into three components:

- Invested in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets, if applicable.
- Restricted net position - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as the Agency's creditors and by other contributors. The Agency has no restricted net position as of June 30, 2013.
- Unrestricted - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Agency.

Governmental fund balances

In the governmental fund financial statements, fund balances are defined as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of externally imposed conditions by grantors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by board of directors of the Agency.
- Assigned - Amounts that are designated by the board of directors or management for a particular purpose but are not spendable until there is a majority vote approval by the board of directors.
- Unassigned - All amounts not included in other spendable classifications.

The Agency has no restricted, committed, or assigned fund balances as of June 30, 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of restricted resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Agency's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Agency's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

NOTE 2 - CASH AND CASH EQUIVALENTS

As of June 30, 2013, the Agency's demand deposit accounts amounted to $58,756 and the petty cash balance amounted to $150. Bank balances for such accounts totaled $58,756, all of which was covered by federal depository insurance, or by an additional assessment agreement from financial institutions participating in the state collateral pool.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended June 30, 2013, is presented below:

	Beginning Balance	Additions	Ending Balance
Governmental activities:			
Capital assets, not being depreciated:			
Land	$ 6,000	$ -	$ 6,000
Capital assets, being depreciated:			
Buildings and improvements	111,796	-	111,796
Equipment	7,800	-	7,800
Total capital assets, being depreciated	119,596	-	119,596
Less accumulated depreciation for:			
Buildings and improvements	(84,180)	(5,640)	(89,820)
Equipment	(439)	(391)	(830)
Total accumulated depreciation	(84,619)	(6,031)	(90,650)
Total capital assets, being depreciated, net	34,977	(6,031)	28,946
Governmental activities capital assets, net	$ 40,977	$ (6,031)	$ 34,946

Depreciation expense of $6,031 was charged to administration.

NOTE 4 - RISK MANAGEMENT

The Agency has purchased commercial insurance against the risk of losses on property, general liability, and workers compensation. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 5 - RETIREMENT PLAN

Plan Description

As of July 1, 2008, employees of Tennessee Duck River Development Agency became members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Participants joining the system after July 1, 1979 become vested after five years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Agency participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at http://www.treasury.tn.gov/tcrs.

Funding Policy

The Agency requires employees to contribute 5.00% of earnable compensation.

The Agency is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 1.12% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Agency is established and may be amended by the TCRS Board of Trustees.

NOTE 5 - RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the year ending June 30, 2013, the Agency's annual pension cost of $1,401 to TCRS was equal to the Agency's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Agency's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 17 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/13	$ 1,401	100.00%	$ -
06/30/12	$ 7,266	100.00%	$ -
06/30/11	$ 6,143	100.00%	$ -

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 100.00 percent funded. The actuarial accrued liability for benefits was $83,000, and the actuarial value of assets was $83,000, resulting in an unfunded actuarial accrued liability (UAAL) of $0. The covered payroll (annual payroll of active employees covered by the plan) was $117,000, and the ratio of the UAAL to the covered payroll was 0.00 percent.

NOTE 5 - RETIREMENT PLAN (CONTINUED)

Funded Status and Funding Progress (continued)

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarially Accrued Liability (AAL) - Frozen Entry Age* (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/c
7/1/2011	$ 83,000	$ 83,000	$ -	100.00%	$ 117,000	0.00%

NOTE 8 - NEW PRONOUNCEMENTS

The GASB has issued Statement No. 66, Technical Corrections - 2012; an amendment of GASB Statements No. 10 and No. 62. The requirements of this statement are effective for periods beginning after December 15, 2012.

The GASB has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from the comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement are effective for financial periods beginning after June 15, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarially Accrued Liability (AAL) - Frozen Entry Age* (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/c
7/1/2011	$ 83,000	$ 83,000	$ -	100.00%	$ 117,000	0.00%
7/1/2009	$ 44,000	$ 44,000	$ -	100.00%	$ 70,000	0.00%
7/1/2007	$ -	$ -	$ -	0.00%	$ -	0.00%

SUPPLEMENTARY INFORMATION

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES, AND NET CHANGE IN FUND BALANCE, BUDGET TO ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	OVER (UNDER)
REVENUES				
Trust Fund B - administrative	$ 205,000	$ 205,000	200,000	$ (5,000)
Trust Fund B - environmental	37,600	37,600	37,600	-
TVA reimbursements	30,400	30,400	7,600	(22,800)
Water supply projects - implementation	283,332	283,332	154,134	(129,198)
Duck River cleanup	3,000	3,000	3,000	-
Miscellaneous income	-	-	140	140
TOTAL REVENUES	559,332	559,332	402,474	(156,858)
EXPENDITURES				
Current:				
Administration:				
Salaries and benefits	145,645	145,645	144,167	(1,478)
Occupancy	8,500	8,500	6,754	(1,746)
Professional services	22,000	23,000	22,531	(469)
Training expenses	6,000	6,000	3,234	(2,766)
Insurance	3,500	3,500	3,491	(9)
Meeting expense	3,000	3,000	3,227	227
Miscellaneous	3,300	3,300	1,469	(1,831)
Repairs and maintenance	3,500	3,500	2,234	(1,266)
Total Administration	195,445	196,445	187,107	(9,338)
Environmental programs:				
Stream gage projects	68,000	68,000	45,200	(22,800)
Water supply projects	208,332	284,832	154,134	(130,698)
Miscellaneous	3,000	3,000	2,818	(182)
Total environmental programs	279,332	355,832	202,152	(153,680)
TOTAL EXPENDITURES	474,777	552,277	389,259	(163,018)
NET CHANGE IN FUND BALANCE	$ 84,555	$ 7,055	$ 13,215	$ 6,160

See accompanying note to supplementary information.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2013

NOTE 1- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles ("GAAP"). Prior to June 30, the Finance Committee prepares a proposed operating budget for the fiscal year beginning July 1. This budget is submitted to the Board of Directors for review and approval. The budget includes all proposed expenditures and the anticipated means of financing them. Any revisions to the budget must be approved by the Board.

OTHER REPORT

KraftCPAs PLLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 15, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kraft CPAs PLLC

Columbia, Tennessee
January 15, 2014